



ARIZONA STATE RETIREMENT SYSTEM

3300 NORTH CENTRAL AVENUE • PO BOX 33910 • PHOENIX, AZ 85067-3910 • PHONE (602) 240-2000

7660 EAST BROADWAY BOULEVARD • SUITE 108 • TUCSON, AZ 85710-3776 • PHONE (520) 239-3100

TOLL FREE OUTSIDE METRO PHOENIX AND TUCSON 1 (800) 621-3778

EMAIL ADDRESS: ASKMAC@AZASRS.GOV • WEB ADDRESS: WWW.AZASRS.GOV

*Paul Matson
Director*

MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

**Friday, November 16, 2012
8:30 A.M., MST**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. Tom Manos, Chair of the ASRS Board, called the meeting to order at 8:36 A.M., MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Tom Manos, Chair
Mr. Mike Smarik, Vice-chair
Mr. Tom Connelly
Professor Dennis Hoffman
Mr. Brian McNeil
Mr. Jeff Tyne

Absent: Mr. Kevin McCarthy

Two vacant positions.

A quorum was present for the purpose of conducting business.

2. Presentation Regarding PRIDE Award for Excellence

Mr. Guarino, Deputy Director and Chief Operations Officer, recognized the following nominees for the PRIDE Excellence award: Zach Kucera, Bruce Pampel, Gary Rodriguez, and the Human Resources Team (Tracy Darmer, Jana George, Neal Park).

The nominees were recognized by their peers as exemplifying the following PRIDE qualities of excellence:

- Surpass member, stakeholder and associate expectations
- Embrace positive changes in a manner which inspires others
- Demonstrate a willingness to go the extra mile to engender a positive public image that solidifies the perception the ASRS is a trusted brand that members, stakeholders and associates will recognize
- Create a motivated, healthy and productive work environment that celebrates and rewards the accomplishments and contributions of others

- Take a personal interest in promoting teamwork through effective use of communication methods within the ASRS to ensure the effective flow of information and knowledge (This includes verbal, non-verbal, written and technological communication techniques)
- Accept personal responsibility and challenges with enthusiasm

Mr. Guarino presented the PRIDE Award for Excellence to the award winner, Zach Kucera.

Mr. Brian McNeil arrived at 8:38 A.M.

3. Approval of the Minutes of the October 19 Public Meeting of the ASRS Board

Motion: Mr. Mike Smarik moved to approve the minutes of the October 19, 2012 Public Meeting of the ASRS Board. Professor Dennis Hoffman seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, 1 excused, and 2 vacancies, the motion was approved.

4. Approval, Modification, or Rejection of Administrative Law Judge's Recommended Decision Regarding Arizona State University's Appeal Regarding an ASRS Employer Termination Incentive Program Invoice

Professor Dennis Hoffman recused himself, stating ASU is his employer and he works with Ms. Lisa Hudson, Arizona State University's (ASU) Attorney.

Ms. Hudson argued the Administrative Procedures Act required the ASRS to adopt an administrative rule to implement A.R.S. § 38-749. She also argued there are no calculations and formulas provided in the statute for the actuarial unfunded liability charged to ASU for their employer termination incentive program (Program). ASU provided a proposed actuarial methodology at the administrative hearing. Their position is that the ASRS should have used the actuarial methodology provided by ASU.

Ms. Jothi Beljan, Assistant Attorney General, argued if the Legislature had intended that a rule was necessary to implement A.R.S. § 38-749, the statutory language would have clearly included such a requirement.

Ms. Beljan argued the ASRS actuary not only uses a generally accepted actuarial method of calculating the unfunded liability, the actuary utilizes the same actuarial assumptions and valuation methodology used to operate the entire ASRS defined benefit plan. Ms. Beljan argued if the ASRS used any other method than the ASRS Plan assumptions, the amount charged for the Program liability would be incorrectly quantified and leave the unpaid liability to be absorbed by all contributing ASRS members. In its report presented in 2006 to the Legislature, the Segal Company found the procedures used by the ASRS and its consulting actuary to be appropriate and reliable in determining the Plan's actuarial funding levels.

Mr. Chris Munns, Assistant Attorney General, and representative from the Solicitor General Section, advised the ASRS Board that it is a complex analysis of whether a statute requires a Rule, and noted A.R.S. § 41-1005 lists thirty-one (31) exemptions to the Rule-making statute.

Mr. Munns referenced one exception, substantive policy statements, which are written expressions informing the general public of an agency's current approach to their opinion of the requirements of the statute. Mr. Munns noted there are also some agency practices that don't need to be codified in an Administrative Rule.

Motion: Mr. Jeff Tyne moved to accept the ruling of the Administrative Law Judge to uphold the Director's determination that ASU is required to pay an employer termination incentive program invoice in the amount of \$1,149,103.00, with the removal of the word "early" in Findings of Fact 14, 18, 31 and 32, and Conclusions of Law 5 and 6. Mr. Tom Connelly seconded the motion.

By a vote of 5 in favor, 0 opposed, 1 abstention, 1 excused, and 2 vacancies, the motion was approved.

5. Approval, Modification, or Rejection of Recommended Administrative Law Judge's Decision Regarding Mr. David Dial's Appeal of ASRS Service Credit

Mr. Dial was not present. A representative of Mr. Dial was not present. Ms. Beljan explained A.R.S. § 38-711(23)(b) requires that an employee of an ASRS employer be "engaged to work at least twenty weeks in each fiscal year and at least twenty hours each week" (20/20) in order to participate in the ASRS. She noted Mr. Dial requested ASRS service credit for the time period March 1, 2000 through July 21, 2000, even though he was expressly not engaged to work at least twenty weeks in each fiscal year and at least twenty hours each week.

Motion: Mr. Mike Smarik moved to accept the ruling of the Administrative Law Judge to uphold the Director's determination that ASRS member Mr. Dial should not receive ASRS service credit for the time period March 1, 2000 through July 21, 2000. Professor Dennis Hoffman seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, 1 excused, and 2 vacancies, the motion was approved.

6. Presentation, Discussion and Appropriate Action Regarding the Arizona State Retirement System's Comprehensive Annual Financial Report for Fiscal Year 2012

Mr. Corey Arvizu, Partner, Heinfeld, Meech & Company, P.C., presented an unqualified Independent Auditor's Report for the fiscal year ending June 30, 2012, on the ASRS financial statements that collectively comprise the ASRS' basic financial statements in the Comprehensive Annual Financial Report (CAFR). An unqualified report means the ASRS financial statements present fairly, in all material respects, the net assets of the ASRS as of June 30, 2012, and the changes in net assets for the year ended in conformity with accounting principles generally accepted in the United States of America. Mr. Arvizu expressed appreciation for the cooperation of ASRS staff.

7. Presentation, Discussion and Appropriate Action Regarding ASRS Valuations **a. The ASRS System Valuation and Actuary's Recommendation Regarding 13th Checks for Retired System Members**

Mr. Charlie Chittenden, Actuary, Buck Consultants, and Mr. Doug Fiddler, Director, Buck Consultants summarized the System Valuation. They provided information regarding non-retired census data, retiree census data, liabilities and funded status. The funded status for the System as of June 30, 2012, was reported as 83.35%. By prior Rule, the ASRS would not increase benefit levels when funded status is below 105%. No additional 13th checks or additions to

current 13th checks are recommended this year. All current 13th checks will continue to be paid.

b. The ASRS Pension Plan and Health Insurance Valuation

Mr. Chittenden and Mr. Fiddler addressed the Board regarding the ASRS Pension Plan and Health Insurance Valuation. Mr. Chittenden noted recent legislation changing the split between employer and employee contributions from 53/47 back to 50/50.

Mr. Chittenden explained his presentation would include assumptions resulting from using the decreased salary scale in accordance with the ASRS Board's motion in November 2011. The following were presented as recommended contribution rates starting July 1, 2013.

	June 30, 2011			June 30, 2012		
	401(a)	401(h)	Total	401(a)	401(h)	Total
Total Contribution Rate	21.15%	0.65%	21.80%	21.95%	0.60%	22.55%
Employee Contribution Rate	10.90%	0.00%	10.90%	11.30%	0.00%	11.30%
Employer Contribution Rate	10.25%	0.65%	10.90%	10.70%	0.60%	11.30%

c. The ASRS Long Term Disability (LTD) Valuation

Mr. Chittenden and Mr. Fiddler addressed the Board regarding the LTD Plan Valuation.

Mr. Brian McNeil departed the meeting at 11:02 A.M.

Mr. Fiddler noted the new recommended rate for employee and employer is 0.24% each, for a total of 0.48%.

d. The ASRS Alternate Contribution Rate (ACR)

Mr. Chittenden and Mr. Fiddler addressed the Board regarding the ASRS aggregate results and Alternate Contribution Rate (ACR). The ACR is what employers pay who have rehired retired ASRS members. The recommended ACR is 9.20%.

Motion: Professor Dennis Hoffman moved to accept the System actuarial valuation as presented.

and,

To accept the actuarial valuation report of the Plan as presented, with the new contribution rate of 11.30% for employees and 11.30% for employers, which includes both pension and health insurance, beginning in Fiscal Year 2014.

and,

To accept the LTD actuarial valuation as presented with the new contribution rate of .24% for employees and .24% for employers, beginning in Fiscal Year 2014. Mr. Tom Connelly seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 2 excused, and 2 vacancies, the motion was approved.

Mr. Chittenden asked if a motion needed to be made regarding the recommendation regarding the 13th check. Mr. Matson noted the Board would have to be proactive for any change to occur to 13th checks, so if there is no vote, there would be no change. He said the Board could vote, if they wished. Mr. Manos commented it was implied in the motion to accept the Plan that there would be no change to the 13th checks.

8. Presentation, Discussion and Appropriate Action Regarding ASRS Investment Program Updates

Due to Board members' schedules and the need for a quorum for action items, this agenda item was provided but not discussed.

9. Presentation, Discussion and Appropriate Action Regarding Independent Reporting, Monitoring, and Oversight of the ASRS Investment Program

Due to Board members' schedules and the need for a quorum for action items, this agenda item was postponed to the next Board meeting.

10. Presentation, Discussion and Appropriate Action Regarding Approved and Proposed 2013 Legislative Initiatives and Legislative Update

Mr. Pat Klein, Assistant Director, External Affairs, and Ms. Lesli Sorensen, Government Relations Officer, addressed the Board regarding the 2013 Legislative Initiatives and Legislative Update.

Ms. Sorensen provided an overview of the following additional 2013 legislative initiative the External Affairs Committee (EAC) decided to move forward: Spousal consent clarification. She noted during the discussion of the 2013 legislative initiative regarding release of some Public Information Request and member information, a member suggested the ASRS explore notifying members that data has been requested and will be released. Ms. Sorensen said no change to the legislation seems to be required, and the ASRS will create a policy that directs the agency to notify members about data requests. Regarding salary spiking, she noted staff will continue to research potential options, likely for future legislative sessions, and discuss them with the External Affairs Committee.

Motion: Mr. Tom Connelly moved to approve the addition of the spousal consent clarification to the 2013 legislative initiatives and also support the clarification and permit staff to make all language changes and negotiate as necessary to obtain the most effective legislative provisions within the construct of today's discussion. Mr. Mike Smarik seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 2 excused, and 2 vacancies, the motion was approved.

11. Presentation, Discussion, and Appropriate Action Regarding Approval of Revisions to the Investment Policy Statement and Investment Manager Selection Policy

Mr. Paul Matson, Director, addressed the Board regarding the Investment Policy Statement and the Investment Manager Selection Policy. He commented they were presented last month along with the ASRS Board Governance Policy Handbook, which the Board approved. Staff assumed they were included in the motion for approval, but it was unclear. As a result, he noted staff took the opportunity to incorporate enhancements to the Investment Manager Selection Policy, while ensuring the intent of the October 19, 2012 Board motion. Mr. Matson reviewed the enhancements.

Motion: Mr. Tom Connelly moved to approve the Investment Policy Statement and the Investment Manager Selection Policy. Professor Dennis Hoffman seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 2 excused, and 2 vacancies, the motion was approved.

12. Presentation, Discussion and Appropriate Action Regarding the Board Self-Evaluation Material Distribution

Mr. Manos asked the Board members to complete the Board self-evaluation materials and return them to him.

13. Possible Discussion Regarding City of Scottsdale vs. the ASRS Litigation

This item was not discussed.

14. Presentation, Discussion and Appropriate Action Regarding the Director's Report as well as Current Events

This item was not discussed.

15. Presentation, Discussion and Appropriate Action with Respect to a Possible Alternative to the State-Wide 5% Critical Retention Payments to the ASRS Director

Mr. Manos addressed the Board, noting earlier this year the Board recommended an increase to the Director's salary but reduced the Board-desired increase to the Director's salary by 5%, given there was a state initiative that would result in a state-wide salary adjustment of 5%. Mr. Manos said the State has determined that employees who have contracts are not eligible for the 5% critical retention payments given that their Boards determine compensation. As a result, the ASRS Director did not receive the full salary increase the Board intended for 2012, and Mr. Manos suggested the Board take action to implement the intended salary increase.

Motion: Mr. Tom Connelly moved to approve a 5% salary increase for the ASRS Director, consistent with the intent of the 2012 Board evaluation of the Director, for the period September 29, 2012 to June 30, 2013, to replace the State-wide 5% critical retention payment. Mr. Mike Smarik seconded the motion. Mr. Connelly amended his motion to change the date of June 30, 2013 to June 21, 2013.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 2 excused, and 2 vacancies, the motion was approved.

Mr. Matson mentioned the Board may wish to make a motion regarding the Alternate Contribution Rate discussed previously in agenda item 7.

Motion: Mr. Mike Smarik moved to approve the Alternate Contribution Rate of 9.2%, for FY 2014. Mr. Jeff Tyne seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 2 excused, and 2 vacancies, the motion was approved.

16. Presentation, Discussion, and Appropriate Action Regarding Calendar Year 2013 Board Meeting Schedule

Mr. Manos addressed the Board regarding the 2013 Board meeting calendar. Staff proposed consideration be given to moving Board meetings from the third Friday of the month to the fourth Friday of the month to allow presentation of more timely quarterly Total Fund investment performance data to the Board, as well as to better accommodate Trustees' schedules.

Motion: Mr. Tom Connelly moved to approve the 2013 Board meeting schedule, meeting on the fourth Friday of the month, with the exception of no meeting in July or December. Professor Dennis Hoffman seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 2 excused, and 2 vacancies, the motion was approved.

17. Presentation and Discussion with Respect to Informational Updates from Prior and Upcoming Operations and Audit Committee Meetings

This item was not discussed.

18. Presentation and Discussion with Respect to Informational Updates from Prior and Upcoming External Affairs Committee Meetings

This item was not discussed.

19. Presentation and Discussion with Respect to Informational Updates from Prior and Upcoming Investment Committee Meetings

This item was not discussed.

20. Board Requests for Agenda Items

No requests were made.

21. Call to the Public

No requests to speak were made.

22. The next ASRS Board meeting is scheduled for Friday, January 25, 2013, at 8:30 A.M., at 3300 N. Central Avenue, 10th Floor Board room, Phoenix, Arizona.

23. Adjournment of the ASRS Board

Mr. Manos adjourned the Board meeting at 11:39 A.M.

ARIZONA STATE RETIREMENT SYSTEM

Lisa Maddox
Board Secretary

Date

Paul Matson
Director

Date